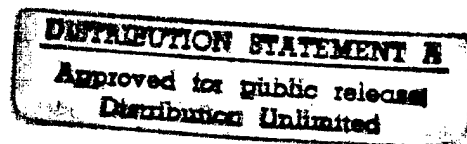

Logistics Management Institute

MTMC's Approach to
Reengineering DoD's Personal
Property Business Process

MT502MR2



Alfred H. Beyer
James E. Cotterman

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Logistics Management Institute
2000 Corporate Ridge
McLean, Virginia 22102-7805

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CHAPTER 1

Overview

INTRODUCTION

Significant problems plague the Department of Defense's (DoD's) personal property program. Identified by various General Accounting Office and internal DoD and Military Service inspections, audits, and reviews, those problems range from highly visible deficient carrier performance and unacceptable loss and damage rates to less visible burdensome administrative procedures and ineffective carrier performance evaluations. Although the program's shortcomings eventually result in unnecessarily high costs, their most dramatic effect is the hardship imposed on the military members whose belongings are being moved. Late pickups, late deliveries, lost and damaged property, and other service failures extract a heavy toll on the morale and well-being of military members and their families. Despite various attempts to reduce or eliminate these and other program shortcomings, none has met with any appreciable degree of success. As a result, the Military Traffic Management Command (MTMC), as DoD's traffic manager responsible for personal property program policy development, implementation, and operational oversight, chose to forego further changes to the existing business process and instead reengineer the program.¹ That initiative began in earnest approximately 15 months ago, with the assembly of a MTMC personal property reengineering team.

MTMC seeks to reduce the complexity of DoD's personal property program by adopting a business process aligned as closely as possible with private-sector employee relocation practices. This report documents the reengineering efforts, to include

- ◆ MTMC's and industry concerns with various features of the existing personal property program,
- ◆ MTMC's evaluation of how best to address those concerns, and
- ◆ MTMC's approach to reengineering the personal property business process.

BACKGROUND

The DoD personal property program overseen by MTMC encompasses approximately 1,400 forwarders and carriers (van lines and moving and storage

¹We define business reengineering as devising a new process, rather than fixing an existing process.

companies) that service more than 650,000 DoD personal property shipments moving within 13 codes of service annually.² Those shipments originate at 205 areas of responsibility (analogous to DoD shipping activities) and move along some 17,000 traffic channels. Annual program costs are \$1.2 billion, with nearly 10 percent (\$101 million) of that total paid to members for loss and damage sustained while their possessions were being moved or stored. Carriers and forwarders file 2.2 million rates semiannually and are required to document and bill for any of 138 accessorial services performed in conjunction with moving and storing each shipment.

DoD is the moving and storage industry's largest single customer. In contrast, the General Services Administration (GSA), which manages the government's (other than DoD's) relocation services program, arranged for approximately 20,000 shipments in FY93, while the largest private-sector shipper (IBM) relocated approximately 8,000 employees in 1994.

Clearly, the program's size contributes to its operating difficulties. Its complexity also contributes to members' and industry's inability to understand and deal with its requirements and stymies efforts to apply state-of-the-art capabilities, such as electronic data interchange (EDI). As a result of those problems, MTMC sought and obtained Congressional and U.S. Transportation Command (USTRANSCOM) support to identify and implement changes to reduce or eliminate many of today's process shortcomings.³ We discuss those changes, and the moving and storage industry's perception of the impact of those changes, in the remainder of this report.

ORGANIZATION OF REPORT

Following our overview of MTMC's personal property reengineering initiative in Chapter 1, we present the reengineered program's key issues in Chapter 2. We identify each issue, discuss its background, and document MTMC's approach for reengineering the personal property business process. We close the chapter with a brief summary.

In Chapter 3, we document the moving and storage industry's views and concerns, as expressed by business owners, senior executives, and managers during meetings, telephone conversations, and in correspondence, regarding various aspects of MTMC's reengineering concept.

²Paragraph 47.101(b)(1) of the Federal Acquisition Regulation (FAR) specifies "the preferred method of transporting supplies for the Government is by commercial carriers. . . ."

³Support is provided by the House Authorization Committee Report on Reengineering the DoD Personal Property Program; National Defense Authorization Act for Fiscal Year 1996, Report 104-131 on H.R. 1530, the National Security Committee, House of Representatives; and USTRANSCOM Memorandum to Commander, MTMC, "Reengineering the Personal Property Program — Action Memorandum," 21 June 1994.

Appendix A provides a sample transportation services agreement; Appendix B identifies the companies that participated in or contributed to MTMC's reengineering initiative.

CHAPTER 2

Discussion

GENERAL

The impetus for MTMC's personal property reengineering efforts comes from the

- ◆ conclusion that major elements of the current process are broken,
- ◆ excessive loss and damage experienced with the current program,
- ◆ ineffectiveness of prior attempts to fix individual problems,
- ◆ need for simple business processes to support automation requirements,
- ◆ problems experienced during the turbulent 1994 peak shipping season,
- ◆ window of opportunity offered by Federal acquisition reform and the ongoing business process streamlining initiatives under the umbrella of the *National Performance Review*, and
- ◆ realization that DoD's relocation practices are inadequate for tomorrow's environment of austere budgets, reduced staffing, and diminished infrastructure.

Together, these factors led MTMC to determine that it should radically change the personal property program to encompass simple and efficient procedures that encourage high-quality service at reasonable cost. During the course of its research, MTMC noted that commercial employee relocation practices are more consistent with those objectives than DoD's practices. An objective of MTMC's reengineering efforts is, therefore, to adapt the most suitable commercial practices for DoD use.

PROGRAM REQUIREMENTS

Based upon MTMC's experience as DoD's personal property manager and industry ideas for improvement, it believes a reengineered personal property program should collectively

- ◆ satisfy DoD's requirements for quality service and reasonable cost;
- ◆ permit appropriate levels of management, oversight, and control;
- ◆ accommodate, as much as possible, industry structure and capabilities;
- ◆ support industry's quest for additional or enhanced business opportunities;
- ◆ incorporate suitable common commercial practices; and
- ◆ employ simple and flexible procedures.

Clearly, reengineering DoD's personal property business process to meet these requirements is a challenge. In the remainder of this chapter, we describe a series of features that MTMC is considering as it reengineers the personal property program. We introduce each feature as an issue and also discuss each feature and present a series of related actions or characteristics for consideration.

Contracting Method

ISSUE

DoD's personal property program always has been exempt from provisions of the FAR.¹ In lieu of FAR contracts, businesses qualified to provide service to DoD members establish relationships with DoD by completing the signature sheet of a Tender of Service.² MTMC is proposing a FAR contract using the commercial style contract as a model. An example of this type of agreement, commonly negotiated between private-sector shippers and their household goods carriers, is provided in Appendix A.

¹The Code of Federal Regulations prescribes rules that apply to the freight and household goods transportation and traffic management activities of all executive agencies except for DoD. FAR paragraphs 47.200(d)(2) and (3) further exempt "... household goods and personal effects of persons being relocated at Government expense when acquired ... by U.S. Government Bill of Lading or by DoD under the Personal Property Traffic Management Regulation."

²See DoD 4500.34-R, *Personal Property Traffic Management Regulation*, Appendix A, "Tender of Service for Personal Property, Household Goods and Unaccompanied Baggage."

DISCUSSION

MTMC is considering the use of FAR contracts as the foundation for its reengineered personal property business process. MTMC's focus on FAR-based service procurement is driven by several factors. They are the

- ◆ demise of the Interstate Commerce Commission (ICC), and the possible accompanying dilution or elimination of Interstate Commerce Act provisions (particularly those pertaining to the household goods industry), prompted USTRANSCOM to pursue procuring all transportation services with FAR contracts
- ◆ MTMC's unsuccessful attempts to change or adjust elements of DoD's personal property program,
- ◆ uniform procedures and established structure of the FAR, and
- ◆ ability to select and award contracts only to carriers that are best qualified to meet DoD's requirements.

The selection of a contracting method is fundamental to MTMC's reengineering initiative.

REENGINEERING FOCUS

USTRANSCOM's goal of procuring all DoD transportation services under FAR provisions, along with MTMC's unsuccessful attempts to change selected elements of the personal property business process, spurred MTMC's interest in adapting the program to FAR-based contracting. However, FAR contracts are controversial, particularly with many segments of the industry, because they introduce requirements with which they are unfamiliar. In recognition of that controversy, on 30 June 1995 MTMC disseminated a draft program requirements document to the Military Services and industry. MTMC subsequently disseminated a draft "Acquisition Strategy for Reengineering the Defense Personal Property Program" on 31 July 1995. The views expressed by respondents to those documents will be key to MTMC's eventual decision regarding the most suitable contracting mechanism. In the meantime, MTMC continues its internal development and analysis of

- ◆ source selection, testing, and implementation methodologies;
- ◆ the effects FAR contracting will have on resources, organizational structure, and operating and payment procedures;³ and
- ◆ the timeline required to implement FAR contracting.

³If MTMC introduces FAR-based contracting to the personal property program, its Principal Assistant Responsible for Contracting office will require additional resources and expertise.

Commodity and Service Structure

ISSUE

As defined in the Joint Federal Travel Regulations and as it relates to DoD's personal property movement and storage program, the term "personal property" includes household goods (HHG); unaccompanied baggage (UB); privately owned vehicles (POVs) and boats; and mobile homes. All of those items are transported within the United States as either intra- or inter-state shipments; all except mobile homes are also transported to and from overseas locations. Two types of service pertain to household goods — movement and storage. Movement of household goods may be accomplished as either household goods or freight. In the latter case, the household goods are packed, crated, and shipped under the direct procurement method (DPM). Storage may be either short term, i.e., storage-in-transit (SIT), or long term, non-temporary storage (NTS). The other movement categories are

- ◆ Shipments moving under a one-time-only (OTO) rate; mobile homes and boats exceeding 25 feet in length always move as OTO shipments. (They are referred to as MOTO and BOTO shipments, respectively.)
- ◆ Volume movements.
- ◆ Do-it-yourself (DITY) movements.

DISCUSSION

The magnitude and complexity of the program leads MTMC to consider some separation, either by commodity, channel, type of shipment, or service provided, in reengineering the personal property business process. Such separation may be particularly appropriate if the program transitions to contracting for required services under FAR. The FAR contracting process defines contractor requirements and provides a Statement of Work (SOW) to which successful bidders must adhere. The program's complexities and broad scope, if incorporated in a single contract, could limit responsive bidding. The differences between domestic and international household goods shipments would also warrant separation. In that regard, the volume-move, OTO, POV, and NTS programs, which are already accommodated separately, appear to be functioning well and are, therefore, candidates for exclusion from any HHG and UB contracting mechanism.

REENGINEERING FOCUS

MTMC plans on designing solicitations for personal property shipments to

- ◆ include the movement of domestic (intra- and inter-state) HHG, international HHG, UB, DPM, local moves, and SIT;
- ◆ exclude the movement of
 - ▶ OTO (to include boats exceeding 25 feet and mobile homes), volume moves, and NTS; and
 - ▶ POVs, which are accommodated under a separate contract;
- ◆ accept bids for either domestic or international HHG shipments, or both.

Traffic Structure

ISSUE

The magnitude of DoD's personal property program enables MTMC to receive competitive rates and require quality service. However, DoD depends on the industry to service its many shipments. It competes with private-sector commercial and individual shippers for the industry's warehouse capacity, trucking capability, and professional labor resources. That dichotomy makes the traffic structure selected for MTMC's reengineering effort a primary driver of the its success or failure. An acceptable structure, which combines traffic flow and traffic scope, leads MTMC to consider both DoD's requirements and the industry's ability and willingness to meet those requirements.

MTMC has considered a variety of potential traffic structure options.⁴ However, since each option possesses both positive and negative characteristics, MTMC has selected outbound traffic lanes from an area of responsibility (AOR) to a rate area (RA) as the preferred traffic structure.

DISCUSSION

MTMC believes structuring traffic on an outbound RA lane (AOR to RA) basis offers a series of positive aspects, in that it

- ◆ takes advantage of the existing worldwide network of 205 AORs and 84 RAs;

⁴Selection of a traffic structure considers traffic flow (i.e., one way, outbound or inbound, or two way, outbound and inbound lane traffic) as a first tier; and traffic scope (e.g., on a global, national, area of responsibility, rate area, state or country, or shipping-activity basis) as a second tier.

- ◆ is acceptable to most DoD and industry participants in that they are already organized to support the embedded lanes;
- ◆ encourages smaller (e.g., regional and niche) carriers to continue servicing DoD traffic by minimizing start-up costs;
- ◆ supports the single-factor rate (SFR) concept; and
- ◆ keeps operations at the local level, thereby fostering local oversight.

Conversely, it creates more than 17,000 traffic lanes worldwide. In a FAR environment, that number of lanes would constitute a substantial source selection workload.

REENGINEERING FOCUS

MTMC seeks to adopt a traffic structure option that offers the most benefits to property owners and the Military Services, and that triggers the least legal and congressional protests by and on behalf of the moving and storage industry. It has taken a major step toward making that selection by distributing its draft requirements document for comment. If outbound RA traffic is determined to be a reasonable and acceptable option, MTMC would consider

- ◆ incorporating pertinent ideas offered by respondents to the draft requirements document into its contracting package, and
- ◆ testing the concept in a limited (pilot) solicitation.

MTMC is also considering streamlining the existing AOR and RA network. Such streamlining could consist of redefining, consolidating, or eliminating AORs and RAs.

Traffic Allocation

ISSUE

Traffic allocation, whereby shipments are offered to qualified carriers or forwarders by origin personal property shipping offices (PPSOs), is closely aligned with the concept of traffic structure. Currently, the Traffic Distribution Record (TDR) is the cornerstone of MTMC's traffic allocation process. The TDR is used by PPSO personnel, as prescribed in DoD 4500.34-R, *Personal Property Traffic Management Regulation*, for traffic allocation to the carriers and forwarders qualified to service each shipping activity.

DISCUSSION

DoD's attempts to provide all qualified carriers and forwarders with equitable shares of traffic have resulted in a variety of problems, including the emergence of multiple images of individual carriers. It appears that these "paper companies" were devised by parent companies, such as van lines, to increase their share of the total traffic allocation. Over time, the number of businesses qualified to provide service to DoD rose rapidly, while capacity increased much more slowly. Today, MTMC must deal with approximately 1,400 carriers and forwarders. During a series of interviews, moving and storage industry executives estimated that at least one-third of these paper companies exist largely in name only.

However, TDR use and maintenance comprise significant administrative burdens for PPSOs. Most of those burdens result from the many carriers qualified to service the shipping activities and the application of rate and performance factors to ascertain each carrier's TDR position. MTMC believes TDR upkeep would be greatly simplified if fewer carriers serviced PPSOs. Ideally, carriers would be awarded traffic on a "best-value" basis, thus eliminating the need for TDRs. An objective of MTMC's reengineering initiative is to achieve the ideal.⁵

REENGINEERING FOCUS

Having long recognized the undesirability of dealing with so many business entities, MTMC is considering several changes to its traffic allocation process. The envisioned changes include reduction or elimination of the TDR; shipment award on the basis of performance (which, in turn, would be heavily influenced by member feedback regarding the service received); contract award to one (or a few, for high-volume traffic lanes) carrier; and, in the longer term, a "pay for performance" program. Those changes would be linked to the variety of carrier qualification and performance evaluation changes discussed in other sections of this report.

Carrier Qualification and Performance

ISSUE

Large private-sector shippers routinely do business only with carriers offering strong financial credentials, proven track records, and capability proportionate to the shipper's requirements. By imposing similar stringent standards, DoD could eliminate from its rolls many of the paper companies currently being awarded shipments. The Army and Air Force Exchange Service, Defense Logistics Agency, and GSA are examples of DoD and Federal organizations that have applied such standards, which significantly reduced the number of carriers with

⁵The term "best value" is used here in a general sense to reflect the most desirable combination of service quality and price.

whom they do business. As a result, they have reduced their administrative burdens and costs, and enhanced the quality of their transportation services. MTMC believes it should be able to realize similar benefits if it reduces the number of carriers and forwarders on its rolls.

DISCUSSION

MTMC believes it could obtain a significant reduction in the number of carriers and forwarders supporting its personal property program. It could achieve that goal by discontinuing common financial and administrative control (CFAC) and incorporating stringent discriminators, such as asset ownership and operation (vehicles, warehouses, personnel, supporting automated systems, and other pertinent infrastructure); financial prerequisites; bonding; reference checks; and performance standards. Such discriminators would permit only the most capable and financially viable businesses to support DoD. Although these efforts are clearly labor-intensive, MTMC believes demanding qualification requirements, whether applied to source selection or service implementation, appear to hold promise of significantly reducing DoD's current carrier base, while simultaneously diminishing MTMC's future carrier selection workload.

REENGINEERING FOCUS

MTMC is considering requiring all contractors and businesses desiring to provide personal property moving and storage services to DoD to demonstrate

- ◆ capability to service shipments, resident in asset ownership or operation;
- ◆ financial viability, attested to primarily by volume-based performance bonds obtained for each origin site;
- ◆ past performance, verified by references and other certified documentation; and
- ◆ EDI capability or, at minimum, willingness to do business in an EDI environment.

In addition, MTMC seeks to impose stringent performance standards that require contractors and businesses to provide

- ◆ 99 percent on-time shipment pickup,
- ◆ 95 percent on-time shipment delivery,
- ◆ loss and damage rates comparable to or better than the lowest commercial accounts' loss and damage rates,

- ◆ direct claim settlement within 30 days of filing, and
- ◆ 95 percent of members declaring they would use the carrier again.

Performance Bonds

ISSUE

Some private-sector and government buyers of goods and services require contractors to obtain performance bonds as a business prerequisite. Performance bonds primarily provide buyers with insurance against contractor failure. They also attest to the contractor's (the bond purchaser's) continuing viability because a surety company does not normally issue a bond to a financially weak company.

DISCUSSION

MTMC requires forwarders of international personal property shipments to purchase performance bonds as a qualification prerequisite, thereby insuring DoD against loss in the event the forwarder's business fails or encounters some other catastrophic event. Failure is not uncommon because many forwarders, functioning primarily as brokers, consolidators, and expeditors, neither have nor need significant capital investments (infrastructure). That shortage of assets makes failure relatively common. The lack of financial strength has caused DoD, and MTMC as its traffic manager, to tread cautiously when dealing with forwarders. It also causes carriers to be wary of shipments offered them by forwarders, primarily because of their high rate of failure.

The insurance function of performance bonds is widely recognized and understood. It is, however, the secondary role of performance bonds — underscoring of the bond purchaser's financial viability — that is of particular interest to MTMC. MTMC believes a substantial bonding requirement can reduce the need for time-consuming, expensive, and administratively burdensome financial reviews of service providers. A bonding requirement must, however, be fairly applied and embody some of the following.

- ◆ A small bond (for example, \$10,000) serves little purpose; most contractors can afford it and surety companies will not hesitate to approve it for any but the most financially unstable business.

- ◆ A large bond could be discriminatory because only the largest contractors may be able to afford it. In addition, bonded contractors will want assurance of sufficient business to offset the bond's significant cost.⁶
- ◆ A bond requirement at each location served by a contractor could also trigger requests for assurance of workload.

REENGINEERING FOCUS

MTMC is considering a stratified performance bond requirement. Sizing bonds based on gross contractor revenues for the preceding year appears to be a viable option. Bonding at the designated level is also being considered as a prerequisite for contract award and qualification to provide service to DoD.

Pricing Strategy

ISSUE

The approximately 1,400 carriers and forwarders that MTMC qualifies for shipment award contribute directly to a variety of personal property rate problems, including the burden of receiving and filing approximately 2.2 million rates semiannually. It must also contend with 138 individual accessorial services charges for 13 codes of service.

DISCUSSION

A variety of rate structure, solicitation, and filing alternatives are available to MTMC. They include continued use of the existing DoD rate solicitations; adoption of a commercial tariff, such as the Professional Movers Commercial Relocation Tariff ICC HGB 400-J (or a subsequent updated version, if any); use of the government tariff (GSA Tender 1-W); and development of a SFR encompassing transportation and selected accessorial services.⁷ These alternatives are discussed below.

- ◆ Although adoption of the Commercial Tariff 400-J would eliminate any need for a military tariff or tender, the anticipated demise of the ICC suggests caution. Proponents of this alternative argue, however, that even without the ICC, the tariff could gain wide acceptance by mutual agreement.

⁶ According to Mr. Bob Burke, Vice President for Corporate Sales, Graebel Companies, typical annual performance bond premiums are \$2,400 for a \$200,000 bond, \$6,000 for a \$500,000 bond, and \$12,000 for a \$1,000,000 bond.

⁷ The Household Goods Carriers' Bureau Committee, "Professional Movers Commercial Tariff ICC HGB 400-J," February 1993 with revisions. Hereafter, we refer to this publication as the Commercial Tariff 400-J.

- ◆ The GSA Tender 1-W is closely aligned with its commercial counterparts. Those favoring adoption of GSA's tender argue that the government does not need two rate structures (GSA's and DoD's) for the same services. Some officials consider eliminating the DoD rate solicitations in favor of the GSA tender as a cost-effective and prudent action.
- ◆ Although feasible, a domestic SFR structure, encompassing transportation and selected accessorial services, is not widely supported by the industry. The major arguments against it are that such rates are not commonly used in commercial practice and service crews (drivers, packers, loaders) want to be paid for actual services performed. In addition, the inclusion of some services could render a SFR uneconomical and FAR provisions, if adopted, would increase labor costs by bringing Federal laws, such as the Service Contract Act and Davis-Bacon Act, into DoD's personal property program.

REENGINEERING FOCUS

The MTMC approach would consist of eliminating, or at least significantly reducing, CFAC provisions while also requiring the remaining core carriers to file rates every two years instead of semiannually; maintaining rate validity for 12 months regardless of workload (which would eliminate peak-season rates); and then simplifying the rate structure by developing a SFR that incorporates transportation charges and most accessorial service charges.⁸

Movement Management

ISSUE

Private-sector shippers routinely look to their contract carriers to perform various movement management functions, such as counseling relocating employees; preparing shipment documentation; monitoring shipment progress; settling loss, damage, or inconvenience claims arising from the shipment; monitoring and reporting their performance; and accomplishing other tasks associated with moving a shipment from its origin to destination. DoD currently performs many of those movement management functions with "in-house" military and civilian resources.

DISCUSSION

Industry, the Military Services, and property owners all contribute to the movement and storage of DoD members' personal property. Although these associated fragmented responsibilities may frustrate adoption of a DoD-wide standard and preclude the transfer of all management functions to carriers or contractors, industry could perform selected DoD functions without jeopardizing movement management operations and service quality. However, some

⁸Separate charges should be considered for SIT, third-party, and extra-labor services.

functions may be considered "core" and, thus, inappropriate for divestiture. In concert with that position, MTMC believes the Military Services could identify the movement management functions they want to keep and those they want carriers or contractors to perform. The ongoing downsizing of PPSOs and adoption of commercial movement management procedures offer promise of being cost-effective in the near term and fostering additional beneficial program changes in the long term.

REENGINEERING FOCUS

In keeping with the view that some personal property functions should not be relinquished to carriers or contractors for accomplishment, MTMC believes the Military Services would likely continue to issue movement authorization documents, counsel members on entitlements, and book shipments with approved or contract carriers. Similarly, MTMC anticipates continuing to acquire and evaluate carrier performance reports and assist members with resolving loss and damage claims.

In consonance with this line of thinking, MTMC and the Military Services are considering requiring carriers or contractors to

- ◆ provide movement management counseling via on-site facilities and toll-free telephone numbers;
- ◆ develop and distribute movement management pamphlets;
- ◆ initiate and maintain pertinent shipment documentation;
- ◆ perform all movement and storage services;
- ◆ ensure high-quality service;
- ◆ settle loss and damage claims directly with members;
- ◆ conduct customer satisfaction surveys;
- ◆ monitor and report carrier performance; and
- ◆ provide electronic data communication capability to support documentation, reporting, shipment tracking, and payment requirements.

Performance Measurement

ISSUE

The Total Quality Assurance Program (TQAP) is MTMC's current worldwide program for evaluating personal property carrier performance. The

program's objective is to raise carrier performance standards, which will increase service quality. Each shipment is scored for on-time pickup, on-time delivery, and loss and damage. Other factors, which are evaluated but not scored, provide a basis for PPSOs to require carrier corrective or remedial actions.

DISCUSSION

TQAP suffers from a variety of shortcomings — estimated rather than adjudicated claims data, insufficient resources to support its administrative requirements, inadequate electronic interface with personal property data systems, and absence of feedback from property owners.⁹ Although MTMC can reduce the impact of some TQAP problems, it cannot eliminate them. In addition, TQAP lacks effective performance measures, such as carrier self-evaluation, carrier feedback of performance data, random DoD quality performance sampling, property owner input regarding satisfaction or dissatisfaction with the move, and simplicity. These features characterize private-sector shippers' requirements for personal property movement performance evaluation. They are equally applicable to DoD, yet none of them are embedded in TQAP.

REENGINEERING FOCUS

In lieu of attempting to correct TQAP shortcomings, MTMC is considering abandoning it and adopting common commercial performance measurement procedures instead. Under those procedures, carriers or contractors may be required to

- ◆ evaluate their performance, in terms of on-time pickup, on-time delivery, loss and damage per hundred weight, and overall loss and damage ratio for every shipment;
- ◆ submit to random DoD inspections as a means of protecting members' property;
- ◆ obtain member feedback on move satisfaction for each shipment handled, particularly the member's willingness to use the carrier again; and
- ◆ provide their performance assessments to MTMC on a monthly or quarterly basis.

⁹See LMI Report MT402LN2, *The Total Quality Assurance Program: Fundamental Problems and Their Solutions*, Alfred H. Beyer and Michael J. McCormick, February 1995, for a description of TQAP shortcomings.

Loss and Damage Claims

ISSUE

Loss and damage to DoD members' personal property, which is common during storage and transit, is frustrating and expensive to both members and DoD. Loss and damage frequently results in members' filing claims for reimbursement against the carrier; the government; and, if applicable, a private insurance company.¹⁰ The process is time-consuming (up to two years or longer) and administratively burdensome. In contrast, most corporate shippers ask relocating employees to file loss and damage claims with the responsible contract carrier within nine months of shipment delivery. The carriers are then responsible for settling the claim directly with the employee, often within 30 days of the date the employee filed the claim. Some shippers contract with independent third-party firms to serve as claim settlement intermediaries.

DISCUSSION

Private-sector personal property loss and damage claim filing, adjudication, and settlement practices are routinely simple and fast. MTMC believes selected elements of those practices appear to be suitable for DoD. They include

- ◆ offering "full-replacement valuation" protection (in lieu of existing per pound or per shipment weight valuations), by either repairing a damaged item, replacing a lost or damaged item with like-kind, or reimbursing the member for a lost or damaged item at full-replacement value;
- ◆ settling claims directly with property owners; and
- ◆ establishing a claims settlement period not to exceed three months.

REENGINEERING FOCUS

MTMC and the Military Services are considering adopting loss and damage claim procedures that

- ◆ require contractors to maintain adequate cargo insurance and obtain performance bonds for domestic and international operations;
- ◆ hold the origin contractor liable for any loss or damage;
- ◆ encourage members to file loss and damage claims directly against the origin contractor within nine months of shipment delivery;

¹⁰See LMI Report MT502LN2, *An Assessment of Loss or Damage Valuation*, Alfred H. Beyer and James E. Cotterman, November 1995, for an assessment of personal property loss and damage valuation as structured and applied by the moving and storage industry to private-sector shippers.

- ◆ require contractors to adjudicate and settle claims within 30 days, but not to exceed 3 months, of a claim being filed;
- ◆ require carriers to provide full replacement valuation coverage for loss and/or damage;
- ◆ permit members to purchase, from the contractor, increased lump-sum valuation insurance;
- ◆ permit members to appeal contractor-provided settlements to DoD in the event of dissatisfaction with the process or settlement offer; and
- ◆ continue to permit members to file a claim against the government within two years of shipment delivery if they elect not to file a claim against the contractor.

SUMMARY

In this chapter, we identified and discussed the key design features of MTMC's concept for a reengineered personal property business process. Fundamental to that concept is the contracting method (FAR or non-FAR) selected, in that most of the other features are either derived from the selection or are influenced by it. MTMC has not made a final decision regarding a FAR or non-FAR contracting method. However, regardless of the contracting method eventually selected, MTMC does envision

- ◆ including all commodities, types of shipments, and services except OTO and volume moves, NTS, and POVs in the new business process;
- ◆ soliciting traffic along lanes consisting of origin AORs and destination RAs;
- ◆ allocating traffic on the basis of demonstrated ability and performance to one or more contractors per lane;
- ◆ qualifying contractors, and evaluating their performance, according to more stringent standards and requirements;
- ◆ imposing a stratified performance bond requirement;
- ◆ adopting a pricing strategy that includes amended CFAC provisions, a longer rate cycle, and SFRs;
- ◆ requiring contractors to provide many movement management services currently provided by government employees;

- ◆ abandoning TQAP and adopting common commercial performance measurement procedures, such as contractor self-evaluation; and
- ◆ adopting loss and damage claims procedures that include, among other features, full-replacement-value coverage and direct claims settlement with members.

CHAPTER 3

Industry Views and Concerns

MTMC's reengineering initiative has generated considerable interest throughout the moving and storage industry. Recognizing the effect that the initiative will have on that industry, MTMC representatives met with several commercial shippers and many moving and storage industry senior executives and managers to understand their views and concerns.¹ MTMC also hosted a series of discussion meetings from April through May 1995. Those meetings were widely advertised and open to all interested parties. Among the businesses visited and those represented at the meetings were large, medium, and small van lines, moving and storage companies, forwarders, and third-party relocation services companies. In addition to highlighting commercial business practices, industry representatives confirmed that program changes are overdue and essential. They also identified a variety of industry concerns with reengineering, in general, and MTMC's objectives, in particular. Most of those concerns are linked to perceived threats to business opportunities and loss of market share. In response to those concerns, MTMC revised its initial concept for a reengineered program based on regionally oriented full service provided by carriers. Those adjustments seek to minimize changes to, and foster additional business opportunities for, all elements of the industry. The companies visited, those attending the open meetings, and those providing written comments are identified in Appendix B. We summarize their views in the remainder of this chapter.

GENERAL

Most respondents expressed the view that reengineering is unnecessary and that DoD's and their own interests would be better served by fixing only the "broken" parts of the existing process. Other views are summarized below:

- ◆ Widespread support was voiced for changing
 - ▶ the rate structure and filing process, to adopt commercial tariffs and procedures
 - ▶ member movement counseling, to transfer performance from PPSOs to contractors that would provide toll-free telephone service
 - ▶ required delivery date determination, to link the date to the member's availability to accept the shipment at destination

¹ Industry representatives whose views are expressed in this chapter include board chairmen, chief executive officers, chief operating officers, presidents, vice presidents, and senior- to mid-level managers.

- ▶ performance measurement, to abandon TQAP and evaluate performance on the basis of the member's satisfaction with the move
 - ▶ the loss and damage claims process, to shorten the filing and settlement timeline, require members to file claims with the carrier, and require carriers to settle claims directly with members
 - ▶ common financial and administrative control, to eliminate the opportunity for contractors to obtain traffic under a variety of corporate names and paper business entities.
- ◆ Small and medium businesses, particularly those serving niche markets or limited geographic regions, not affiliated with a national company or carrier, and wholly dependent on DoD business, view reengineering as a threat to their business (market share) and independence. They also suggested that reengineering creates a politically volatile climate and favors large businesses (carriers) already well-positioned to maintain market share.
 - ◆ Many companies expressed concern about the proposed introduction of FAR contracting, noting that complex, formal contracts are not used with either private-sector shippers or other government agencies. Their concerns focused on
 - ▶ industry-wide unfamiliarity with FAR procedures and what they believe are onerous administrative requirements and restrictions;
 - ▶ the higher labor costs associated with those requirements;
 - ▶ a perceived inability of all but the largest corporations to prepare responsive, competitive bids; and
 - ▶ the minimum wage and benefit requirements of the Service Contract Act, which would be required in the FAR environment.
 - ◆ There was widespread support for carriers and contractors to
 - ▶ provide toll-free telephone numbers,
 - ▶ trace shipments and provide intransit visibility of all shipments,
 - ▶ conduct customer satisfaction surveys,
 - ▶ use subcontractors,
 - ▶ counsel members regarding their moves,
 - ▶ accept more stringent performance standards,

- ▶ reduce government regulations, and
- ▶ use electronic data interchange techniques.

RATES

A variety of views regarding a suitable rate structure were expressed and are discussed below:

- ◆ Use of an all-encompassing SFR for domestic shipments is undesirable. That view was based on SFRs being neither commonly used nor standard in the industry, and concern that they
 - ▶ are subject to labor and material cost fluctuations,
 - ▶ result in drivers and packers not always being compensated for actual work performed, and
 - ▶ work against shippers who pay for accessorial services whether they are performed or not.
- ◆ Respondents generally favored:
 - ▶ considering a SFR that excludes SIT and possibly some other accessorial charges, such as extra-labor and third-party charges;
 - ▶ establishing a longer (such as annually) standard rate structure with periodic cost of living or inflation adjustments and a peak season adjustment;
 - ▶ using commercial rates, with the DoD negotiating discounts from those rates; and
 - ▶ eliminating, or at least greatly reducing, CFAC provisions, which would result in only primary companies submitting proposals and bid rates, and being awarded contracts.

PERFORMANCE MEASUREMENT

The industry-wide view that MTMC's existing quality measurement system, TQAP, suffers from serious deficiencies is also shared by MTMC and the Military Services.

Most industry representatives support

- ◆ abandoning TQAP,
- ◆ replacing it with a simple process patterned after the performance measurement procedures commonly used by private-sector shippers,
- ◆ embedding member satisfaction with the move as the most important performance measurement element,
- ◆ requiring contractors to evaluate their performance and provide periodic assessment reports to DoD, and
- ◆ providing incentives for superior performance (e.g., pay for performance).

LOSS AND DAMAGE CLAIMS

Industry representatives were nearly unanimous in their view that the long-standing loss and damage claim filing and adjudication process is inefficient, cumbersome, and lacks responsiveness. Some of their views are summarized below.

- ◆ Industry representatives probably would support changes that require direct contractor claim settlement with members and limit the claim filing and claim settlement period to reflect commercial practices.
- ◆ MTMC's desire to obtain replacement value coverage, with its cost embedded in the transportation rate, is highly contentious, however. The American Movers Conference set the tone for the industry view that if full-replacement-value coverage is provided, the cost of that coverage must be invoiced as a separate charge. Nonetheless, the concept of full-value coverage for DoD shipments was viewed negatively and elicited considerable concern.

COMMODITY AND SERVICE STRUCTURE

Commodity and service structure comments focused primarily on two observations as described below:

- ◆ The "bundling" of various types of service (for example, domestic and international traffic) is viewed as undesirable.
- ◆ Most respondents, excluding the largest van lines, argued that businesses should not be forced to provide services in which they are not qualified, capable, or interested in order to remain in DoD's program.

SUMMARY

In this chapter, we summarized the views and concerns of the moving and storage industry on MTMC's concept for a reengineered personal property business process. Most industry representatives expressed the view that reengineering is unnecessary and undesirable. Instead, they proposed that MTMC make changes to the existing process to reduce or eliminate its shortcomings. The industry generally supports changes to a variety of program features, to include

- ◆ the rate structure and filing process,
- ◆ member counseling,
- ◆ performance measurement, and
- ◆ the loss and damage claim filing and adjudication process.

The major concerns expressed related to imposition of the FAR contracting process on the industry and the perceived threat to continuing business viability under a system of contract awards to single, rather than multiple, carriers.

APPENDIX A

Sample Transportation Services Agreement

Private-sector shippers and the carriers they hire to provide relocation and moving services for personal household effects and office furniture and fixtures generally seal their business relationships in short, simple, easily understood agreements or tenders. The requirements to be met by the carrier, and the conditions governing the performance of the carrier's service, are negotiated and reflected in the document, which is signed by both parties. Thus, it serves as a contract between the shipper and carrier.

This appendix provides a sample of a transportation services agreement.

TRANSPORTATION SERVICES AGREEMENT

This Agreement for transportation services (the "Services") is entered into between SAMPLE ("Shipper") and United Van Lines, Inc. operating as a motor contract carrier under ICC permit no. MC-67234 and such of its agents then operating under an active agency agreement which hold current, valid contract carriage authority from the Interstate Commerce Commission ("Carrier"). In consideration of the mutual promises herein, the parties agree as follows:

1. Shipper agrees to engage Carrier and Carrier agrees to provide Shipper the Services specified herein. Shipper and Carrier do not contemplate a minimum or maximum number of shipments during the term hereof, but agree that all Services shall be governed by this Agreement.
2. The terms and conditions regarding the Services, including the commodities, scope and territory, term, compensation, Referenced Tariffs, liability of Carrier and Rules Governing the Contract are those specified in Appendix A attached and form a part of this Agreement.
3. Carrier shall make available the necessary equipment, personnel and other materials generally used in the movement of goods, maintain all necessary licenses and permits, and maintain all required insurance coverages, in conformance with all applicable requirements of governmental authorities.
4. This Agreement shall be subject to and be interpreted in accordance with federal laws applicable to the Services and in all other respects with the laws of the State of Missouri.
5. This Agreement, including Appendix A, constitutes the entire Agreement of the parties and may not be amended or altered except in writing signed by both parties.
6. The term of this Agreement shall be for the period specified in Appendix A. Either party may terminate this Agreement upon 30 days written notice to the other. This Agreement shall be effective as of the date signed by Carrier.

United Van Lines, Inc.

SAMPLE

By: SAMPLE

By: SAMPLE

Title: _____

Title: _____

Date: _____

Date: _____

APPENDIX A

This Appendix A shall form a part of the Transportation Services Agreement between United Van Lines, Inc. ("Carrier") and SAMPLE ("Shipper").

ITEM 01 - COMMODITY:

Household Goods as defined in 49 U.S.C. 10102(11), including:

- First Proviso - Personal Household Effects
- Second Proviso - Office Furniture & Fixtures

ITEM 02 - SCOPE AND TERRITORY:

Interstate shipments between points in the United States (Excluding Alaska and Hawaii).

Carrier's services as a motor contract carrier are limited to the transportation of commodities and within the territory specified by this Appendix A. Any transportation services performed by Carrier for Shipper beyond the scope of this Appendix A shall be performed by Carrier as a common carrier as that term is defined at 49 U.S.C. 10102(11).

ITEM 03 - TERMS:

The term of this Agreement shall be for a period of 12 months from the effective date and shall automatically renew for a like period upon the terms herein, except that during any renewal period such terms shall be based upon the then current Referenced Tariffs.

ITEM 04 - REFERENCED TARIFFS:

- First Proviso, HGB 400-J/104-E, and/or Second Proviso, and supplements and reissues thereof.

The Referenced Tariffs are those published by the Carrier with the Interstate Commerce Commission or with any other federal or state agency and are incorporated by reference as if more fully set-forth herein. Shipper acknowledges actual notice of the terms and conditions expressed or contained in the Referenced Tariffs.

ITEM 05 - COMPENSATION TO CARRIER:

Carriers' compensation for transportation services shall be determined in accordance with the Referenced Tariff(s) identified herein, subject to the following modifications:

Transportation rates under Sections 2 and 3 except for Items 190 Valuation charges, Item 210 Storage-in-Transit, Warehouse Handling, Pickup for Storage-in-Transit, and Third Party Services of the Referenced Tariff 400-J/104-E shall be reduced by 40.0%.

Storage-in-Transit, warehouse handling and pick-up and delivery rates in the Referenced Tariff 400-J/104-E shall be reduced by 35.0%.

ITEM 06 - DOCUMENTATION:

Carrier shall prepare or cause to be prepared bills of lading, inventories, weight certificates, receipts and all other such documentation as may be required by its tariffs, or federal, state or local laws, rules or regulations governing the services to be performed hereunder. At the request of Shipper, Carrier agrees to provide copies of same to Shipper in sufficient detail to substantiate billing for the service provided. Carrier shall retain such records for one (1) year after the termination of this Agreement, or for such period of time as may be required by federal or state laws, rules or regulations. The provisions, terms and conditions of the documents identified in this paragraph shall be deemed a part of this Agreement. To the extent any such document shall contain matters which conflict with this Agreement or any part thereof, such conflicts will be resolved in favor of this Agreement.

ITEM 07 - SEASONAL RATE ADJUSTMENT:

Carrier's compensation will not include the May 15 to October 1 Peak Season Adjustment found in the Referenced Tariff(s).

ITEM 08 - STORAGE-IN-TRANSIT:

Carrier agrees that the time period before a shipment converts from storage-in-transit to permanent storage shall be one hundred and eighty (180) days.

ITEM 09 - CARRIER'S LIABILITY:

Carrier's liability for loss or damage to goods being transported shall be determined in accordance with the relevant provisions of the Referenced Tariffs, modified as provided in this section.

Carrier's liability shall be that of a common carrier and be subject to 49 U.S.C. 11707 and Part 1005 of Title 49 of the code of Federal Regulations with regard to claims and actions for loss or damage to property transported pursuant to this Agreement. Carrier's liability on an item-by-item basis and maximum liability for loss and damage shall be as follows:

- A. Full Value Protection, which means that for any items lost or damaged while in Carrier's custody, carrier will either repair, replace with like-kind or pay the replacement value of such item, at Carrier's option, and in accordance with Item 1303 of exceptions Tariff 104-E of the Referenced Tariffs.

(1) Carrier's maximum liability for loss or damage shall be the lesser of \$ 3.50 per pound times the actual weight of the shipment or \$ 50,000.

The charge for such coverage shall be \$.40 per \$100.00 of coverage.

Coverage increasing the maximum level of liability set forth in A. (1) above, may be obtained by declaring such additional amount on the Bill of Lading. The charges for such additional amount shall be \$.40 per \$100.00 additional value.

- B. Notwithstanding the foregoing, Carrier's liability for loss or damage to Extraordinary Value Items (an Extraordinary Value Item shall mean an item whose value exceeds \$100.00 per pound based upon actual weight) shall be limited to \$100.00 per pound per article unless such items are disclosed in writing to Carrier by Shipper or Shipper's employee. Carrier shall provide Shipper or Shipper's with Carrier's form for the purpose of making such disclosure. Upon disclosure of the Extraordinary Value Items to Carrier, Carrier's liability for loss or damage to such item shall be as provided in Paragraph A hereof.

Carrier warrants that the equipment used in performing the described services shall at the time Carrier makes such equipment available to Shipper for the transporting of shipper's property be in good repair, and in conformance with all applicable requirements, rules and regulations of the Interstate Commerce Commission, the Department of Transportation and other regulatory agencies having jurisdiction over Carrier's operations. However, Carrier's warranty shall not extend to delays or other service failures due to or resulting from acts of God, civil commotion, riots, strikes or any other contingency not within the control of Carrier.

ITEM 10 - APPLICABILITY:

This Agreement shall apply to all shipments moving on a prepaid or charge basis, provided said shipments are invoiced to shipper and booked with agents of United, under the provisions of this Agreement.

ITEM 11 - CLAIMS SETTLEMENT:

Carrier agrees to offer settlement of cargo damage claims not exceeding \$500 within 30 days of the receipt of completed claim forms at United Van Lines Corporate Headquarters. Failure to meet this requirement will result in payment of \$25.00 per day to Shipper and/or its subsidiary companies for every day past the deadline, up to a maximum of \$250.00.

ITEM 12 - DELAYS:

For First Proviso shipments, Carrier agrees to pay Shipper per diem claims for late pickup or delivery based upon the governing provisions as published in Item 1305 (Guaranteed Pickup & Delivery) of HGCB Exceptions Tariff 104-E of the Referenced Tariffs.

ITEM 13 - SUBCONTRACTORS:

The parties agree that all or any part of the services contemplated to be performed under this agreement may be subcontracted at the discretion of the carrier to authorized United Van Lines agents.

ITEM 14 - INSURANCE RELATED SURCHARGE:

Carrier agrees to apply the Insurance Related Surcharge for 1st Proviso Household Goods shipments moving under Tariffs 400-J, 104-E for the duration of this agreement.

ITEM 15 - FUEL SURCHARGE:

A fuel surcharge may be imposed when agreed to by Carrier and Shipper in writing on emergency basis where actual or threatened civil or military actions, acts of God, accidents, civil disorders, whether such are domestic or foreign, or where compliance is required by legally constituted civil or military authorities, affect the availability or price of fuel supplies. These rates and/or charges or surcharges may be in addition to the normal rates and charges for traffic moved under this agreement. These charges will be applicable upon approval by the Interstate Commerce Commission for inclusion in industry-wide tariffs.

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APPENDIX B

Industry Interfaces

This appendix identifies the companies that either responded in writing or telephonically to proposed changes to the Department of Defense's personal property program, hosted visits from Military Traffic Management Command (MTMC) representatives, visited MTMC Headquarters, or attended open meetings at MTMC.

COMPANIES PROVIDING CORRESPONDENCE

AALCO Forwarding, Inc.
A. Arnold & Son Transfer and Storage Co.
A Olympic Forwarders, Inc.
Abba International, Inc.
Acorn International Forwarding Co.
Air Van Lines International, Inc.
Alaska Movers Association
Allied Van Lines
Allstates Worldwide Movers, Inc.
Aloha Worldwide Forwarders, Inc.
Alumni International, Inc.
American International Movers, Inc.
American Movers Conference
American World Forwarders, Inc.
Apollo Forwarders, Inc.
C-Xpress Moving and Storage
California Moving and Storage Association
Cavalier Forwarding, Inc.
Central Van Lines, Inc.
Classic Forwarding, Inc.
Coastal Moving and Storage, Inc.
Collins Moving Systems
Continental Van Lines
Covan World Wide Moving, Inc.
Crystal Forwarding, Inc.
E & H Transport Network, Inc.
Emerald City International Corporation
Hi-Line Motor Carriers
Hilldrup Moving and Storage
Household Goods Forwarders Association
Independent Movers Conference
Interstate Van Lines, Inc.

JAG International
Johnson Controls
Johnson Storage and Moving Company
Liberty Movers, Inc.
Lynn Moving and Storage, Inc.
Moving Systems, Inc.
National Forwarding Co., Inc.
National Moving and Storage Association
Northwest Moving Services, Inc.
Park Avenue Storage World Wide Moving
Perfect Pak Company
Safety Moving and Storage, Inc.
Sanders Company
Security Van Lines
Shadowens Moving and Storage, Inc.
Starck Van Lines, Inc.
Stevens Worldwide Van Lines, Inc.
Travel Guard
UNIRISC, Inc.
United Van Lines
Western Data Corporation
Western Van and Storage
Wheaton World Wide Moving

COMPANIES VISITED

Alaskan Movers Association
Allied Van Lines
American MoPac
American Movers Conference
American Movers, Inc.
Apollo
Atlas Van Lines
Bekins Van Lines
Chevron Corporation
Cook Moving and Storage Company
Graebel Companies, Inc.
GTE Corporation
Interstate Van Lines, Inc.
Hilldrup Moving and Storage
Mayflower Transit
National Van Lines
Nilsen Van and Storage
North American Corporate
North American Van Lines
Pullen Moving Company
Security Van Lines
Stevens Group, Inc./Stevens Van Lines

The Suddath Companies
UniGroup, Inc./United Van Lines
United Parcel Service
Valley Moving and Storage

COMPANIES VISITING MTMC HEADQUARTERS

Carlyle Van Lines
Moving Systems, Inc.
National Moving and Storage Association
PHH Homeequity
Victory Van Lines
Wabash Forwarding

COMPANIES ATTENDING OPEN MEETINGS (APRIL 21 THROUGH 31 MAY 1995)

Aalco Forwarding, Inc.
A-Whisco, Inc.
Abba International
Acorn International Forwarding Company
Allied Van Lines
Ambassador Relocations
American Movers Conference
American Red Ball Transit Company
American Security
American World Forwarding, Inc.
Associated Air Freight
Atlas Van Lines
Bekins Van Lines
Berry Van Lines, Inc.
Bowser Transportation
Capital Movers Service
Capital Moving Systems
Cartwright International Van Lines
Central Transportation Systems, Inc.
Delmarva Warehouses
District Moving and Storage
Embassy Air Express
Executive Moving Systems, Inc.
Global Van Lines
Gosselin World Wide Moving, N.V.
Guardian Moving and Storage Company
Gunnick Port Services
H & B Forwarding, Inc.

Horizon Van Lines
Household Goods Forwarders Association
Independent Movers Conference
Interstate Van Lines
Mayflower Van Lines
Modern Transportation Service, Inc.
Moving Systems, Inc.
North American Van Lines
Ogden Transfer and Storage
PHH Home Equity
Quality Transport Services, Inc.
Sea-Land Services
Security Van Lines
Starck Van Lines
Starck Van Lines of Columbus, Inc.
Travel Guard
United Van Lines
Williams Moving Company
Zucker, Scott, & Rasenberger

REPORT DOCUMENTATION PAGE

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